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S E C R E T SECTION 01 OF 03 TAIPEI 000878

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SUBJECT: PREMIER SU TSENG-CHANG ON PRESIDENTIAL PRIMARY
CAMPAIGN AND U.S.-TAIWAN RELATIONS

Classified By: AIT Deputy Director Robert Wang,
Reasons: 1.4 (b/d)

11. (S) Summary: In an April 18 meeting with Premier Su
Tseng-chang, the Director underscored U.S. concerns about the

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stalled defense budget and the possibility of election-driven
moves by Taiwan that could damage cross-Straits stability. Su
said the DPP is trying to work out a compromise with the KMT
to allow passage of the defense budget, and he suggested that
once the primary season is over in June, the DPP and its
presidential candidate will moderate their rhetoric in an
effort to win the political center. Su emphasized that
Taiwan's new president will have to pay attention both to
public opinion and to the attitude of neighboring countries,
including China, the U.S., and Japan. Su hoped Beijing would
grasp the opportunity to engage Taiwan's next president, and
he also discussed the value of further cross-Straits opening.
End Summary.

12. (S) The Director discussed U.S.-Taiwan relations and
domestic politics with Premier Su Tseng-chang on April 18.
Briefing Su on his recent consultations in Washington, the
Director underscored concerns about the stalled defense
budget and about the possible effects on cross-Straits
stability of President Chen Shui-bian's new "four wants"
("four imperatives") formulation.

Defense Budget

13. (C) Su blamed the KMT for holding the 2007 annual budget
hostage to its Central Election Commission (CEC) bill in the
Legislative Yuan (LY), and added that the KMT had rejected a
DPP compromise intended to allow the defense portion of the
budget to pass first. While the KMT wants the CEC membership
to be based on party representation in the LY, this is
unconstitutional, and the DPP has suggested that the two
sides propose candidates and then agree on a common list.
The KMT goal is to gain the majority of seats on the CEC,
which the DPP cannot accept, Su said.

The KMT

14. (C) Su said LY Speaker Wang Jin-pyng supports passing the defense budget but former KMT Chairman Ma Ying-jeou has insisted that the CEC bill must be dealt with first. According to Su, Ma appointed Wu Den-yih as Secretary General and selected Wu Poh-hsiung as the new chairman to retain control of the KMT. Ma's rival Wang Jin-pyng is supported by the People First Party (PFP), the Non-partisan Solidarity Union (NPSU), and some KMT legislators. Ma-Wang rivalry is having a polarizing effect on the KMT, but the "final battle" between Ma and Wang has not yet been joined, Su suggested.

WHO and UN

15. (S) The Director reviewed U.S. concerns about possible political moves by Taiwan on sovereignty-related issues, including applying under the name "Taiwan" to join the UN. Taiwan appeared to be laying the groundwork for a UN initiative with President Chen's recent letter applying to join the WHO under the name "Taiwan." Su responded that the application to join WHO under the name "Taiwan" reflected the public's frustration with the lack of progress in Taiwan's WHO campaign over the past ten years. Almost half of the LY members had signed a petition asking the government to apply for WHO membership, Su added.

16. (C) The Director noted that Taiwan's next president will have to figure out how to deal with China. The U.S. is concerned Taiwan might take destabilizing steps during the presidential election that would make it harder for the next president to find a practical and productive cross-Straits approach. Su suggested that the most extreme political rhetoric and moves were taking place during the current primary season. Once the primary process is completed, the DPP and its presidential candidate will move to the middle of the political spectrum to win more votes, Su predicted. He

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added that he believed President Chen would gradually give more and more room to the DPP presidential candidate.

17. (C) Whoever is elected president in 2008 will have to pay careful attention at the same time both to Taiwan public opinion, and to the attitude of neighboring countries, especially China, the U.S., and Japan, Su observed, saying that all leaders in Taiwan realize this. Public opinion in Taiwan, a new democracy, is subject to change and gradual shifts, Su suggested. For example, increased PRC unfriendliness leads to a more confrontational attitude in Taiwan.

Cross-Straits Relations

18. (C) It is highly regrettable, Su observed, that China refused from the beginning to have contact with the DPP and President Chen. Chen was willing to make his "four noes" commitment, despite pressure not to do so, because he wanted to open contact with China. For the same reason, he announced his "active opening" cross-Straits economic policy. However, the response was disappointing, public opinion changed, and Chen therefore adjusted his policy toward the PRC. Su hoped that China would grasp the opportunity presented by a new president coming into office in Taiwan in 2008. Those in Taiwan who support direct cross-Straits links and "active opening" need encouragement for cross-Straits policy to move forward rather than back to the starting point, Su pointed out. He said that there needs to be an effective cross-Straits mechanism given the very close cross-Straits economic relationship.

19. (C) While taking into account sovereignty and security concerns, Su suggested there should be cross-Straits discussions on a range of issues, including flights, PRC tourists, and banking. As experience is gained with charter flights, there can be further step-by-step progress in this

area. Having tourists visit Taiwan is very good for educational purposes, Su suggested. He noted that members of PRC academic and religious groups often appeared not to have slept well during meetings held on the day after their arrival in Taiwan. The reason was they had all stayed up late watching Taiwan's famous political call-in talkshows, a type of program that is not possible in the PRC at this time.

DPP Presidential Primary

¶10. (C) Turning to the DPP primary, Su noted that he and Frank Hsieh are very close in public opinion polls and in expected votes from party members, which together will determine who will become the DPP's presidential candidate. Su expects a turnout of about sixty percent of the 250,000 DPP members in the May 6 primary vote and believes a high turnout will help him. In the subsequent public opinion poll, Su would have preferred not to exclude Blue supporters, and he believed the provision to exclude about 30 percent of the (Blue) respondents would hurt him slightly. If he wins the primary, Su said, he will want to select a vice presidential candidate who is different from himself and can appeal to a different set of voters. Su noted, however, that he had already said he could accept one of the three other presidential candidates as his running mate, a proposal that Yu Shyi-kun and Annette Lu had already rejected.

Foreign Investment

¶11. (C) The Director noted the collapse of Carlyle's takeover bid for Advanced Semiconductor Engineering (ASE). DDIR pointed out that some large western companies which were interested in Taiwan's financial market were holding off investing because they believed Taiwan's government was not especially welcoming. In particular, Taiwan's government seemed to drag its feet on approvals while saying that it welcomes foreign investments in general. Su stressed that Taiwan's policy is to welcome and encourage foreign investment and that any problems of slow approvals are due to

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"other reasons," adding that the government could look into concrete cases. The Director urged Su to pay attention to the attitude of international business toward Taiwan, observing that impressions can become realities, and he suggested AIT could hold follow up discussions on this issue with Vice Premier Tsai and Economics Minister Chen.

Comment

¶12. (C) Su seemed relatively at ease despite the pressures of an intense presidential primary campaign in addition to his normal duties as a premier. Su's well-known moderation and pragmatism came through clearly in his remarks on cross-Strait opening and on the importance of paying attention to U.S. and Chinese attitudes as well as Taiwan public opinion. If nominated as the DPP candidate, Su's remarks suggest also that he will move back to the center of the political spectrum.

YOUNG